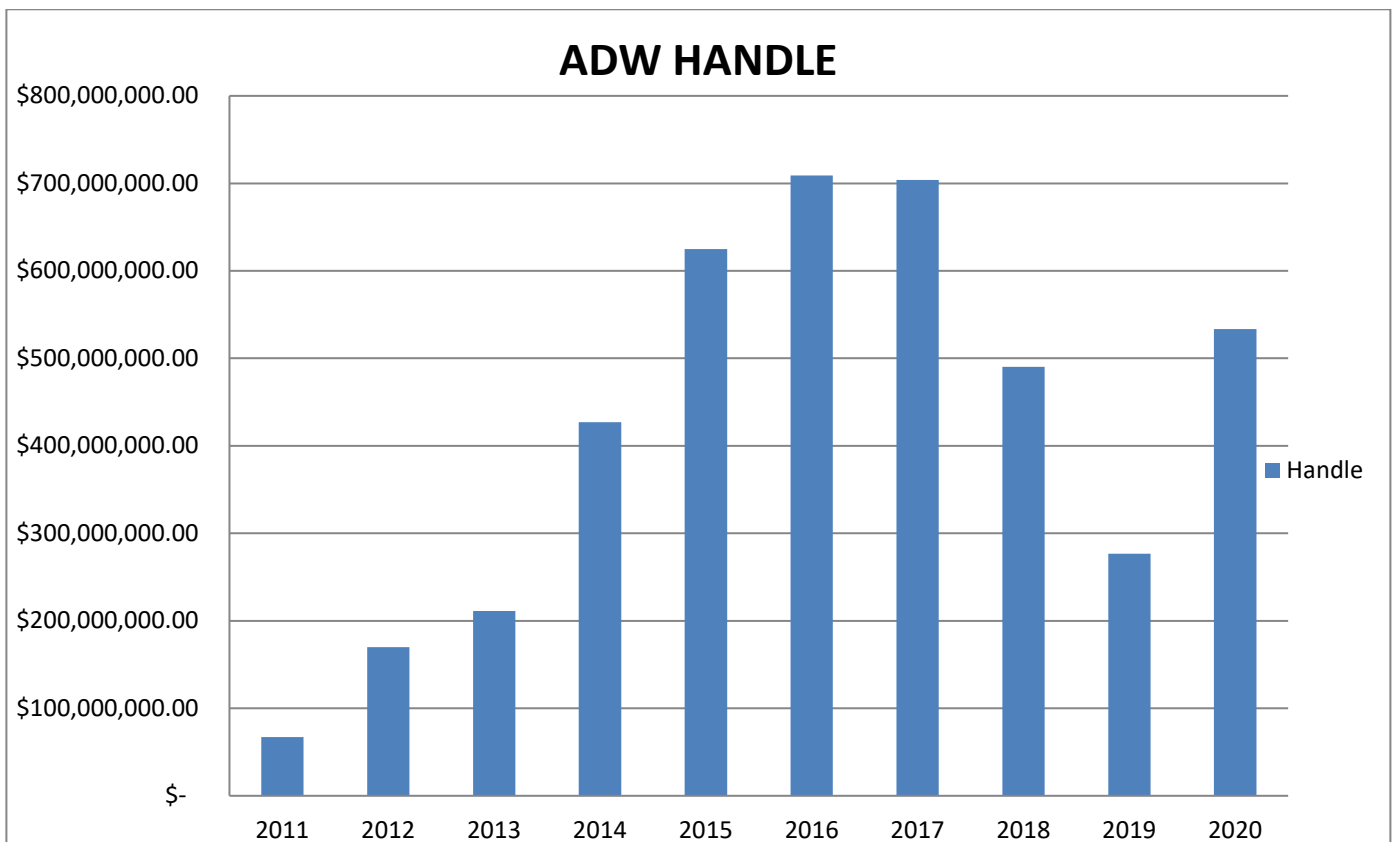


Senate Bill 2023  
ND Racing Commission  
Jack K Schulz, Director  
January 7, 2021

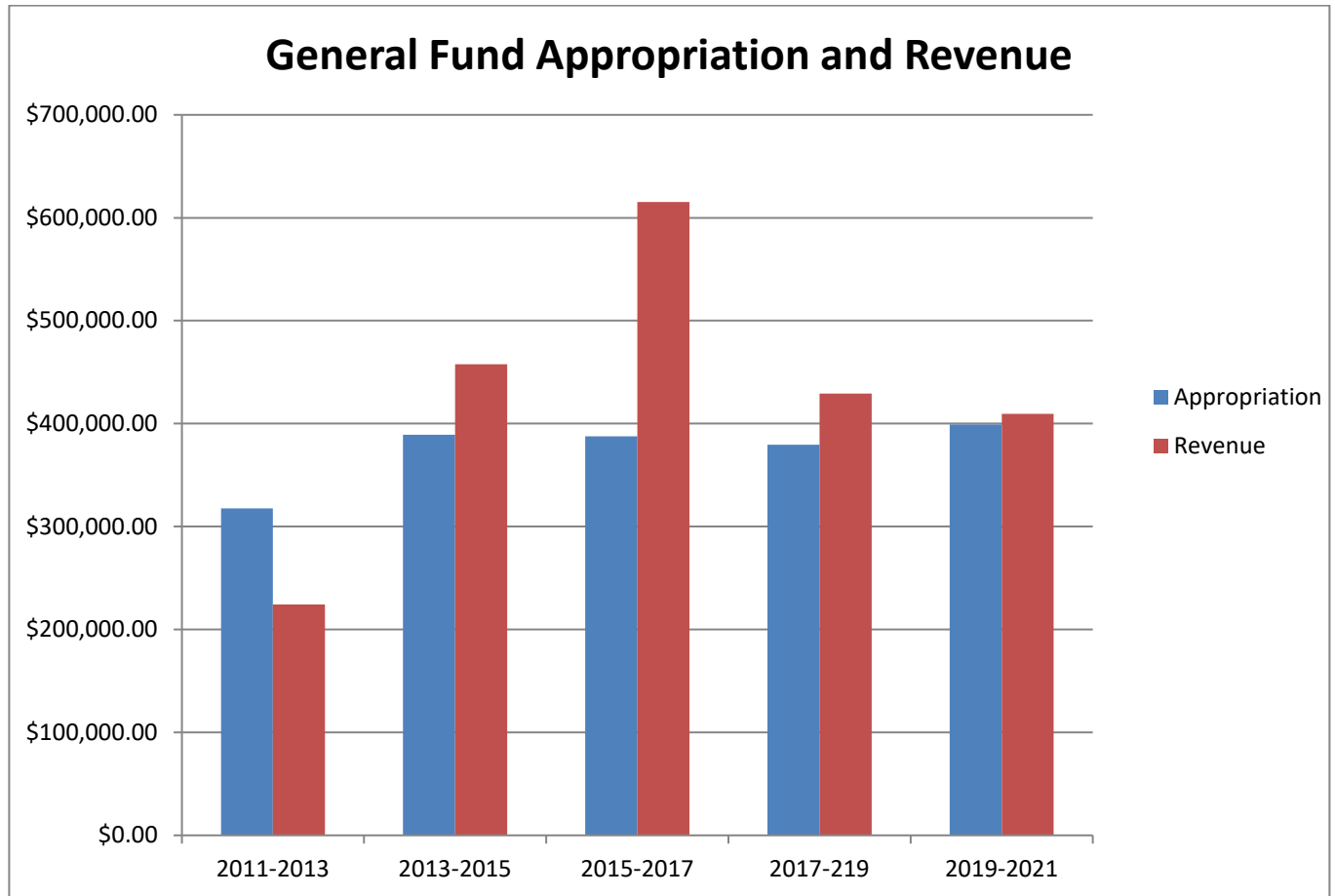
67<sup>th</sup> Legislative Assembly  
Senate Appropriations Committee  
Senator Ray Holmberg, Chairman

To the Honorable Chairman Senator Holmberg and other Honorable members of the Senate Appropriations Committee. Thank you for the opportunity to appear before you to present my testimony for SB 2023, the ND Racing Commission (NDRC) 2021-23 biennium budget.

The racing industry has seen significant financial variances over the last few years as documented by the charts below.



Even in these volatile times, the NDRC has been able to maintain its payments to the general fund exceeding our appropriations for the past 4 biennia.



The future of racing in North Dakota has some significant risks and challenges going forward. One such risk is the effect of the Advanced Deposit Wagering (ADW's) markets on our revenues. With the decline of retail ADW operations, revenues are more and more dependent upon high-volume bettors. We are seeing that minor changes in a company's business structure, regulatory changes in other jurisdictions, or rate differences between companies result in significant shifts in wagering volume away from North Dakota. In fact, these are demonstrated by our wagering volume during the 2019 calendar year as shown by the graph on page one.

While the Commission has done its best to plan and mitigate the effects of any changes, significant impacts to our wagering volume have occurred. COVID-19 created an unanticipated 2020 with wagering and revenues exceeding our expectations. However, we are already seeing a reduction in those numbers with the restart of other sports wagering around the world. Moving forward, it's imperative that the racing industry in the state identify and obtain more reliable sources of revenue by attracting more ADW's to license with our state. To accomplish this, we feel that we need to start a marketing campaign that includes retaining existing and acquiring new licensees. This requires funding for conference registration, travel, personnel, equipment and supplies. These items were covered in our one-time funding request for \$12,000.

Additionally, we requested \$30,000 for 3 Interns each year to work at our office and at the live race meets. The desire is to assist university students in agriculture programs to learn and experience the horse racing industry firsthand and to generate more interest in this industry with our state's young adults.

We also requested an increase of \$48,000 for office relocation. We are currently located at the Attorney General's office located at 500 North 9<sup>th</sup> Street in Bismarck. This area has limited/no parking for clients/visitors and sometimes staff. The parking that is available is reserved for AG Staff and are small spaces not practical for larger pickups that many of our clients /visitors drive. We are in the basement of the building with no ADA accessibility making it difficult for our disabled clients and staff.

The last item in this section I would like to address is that our current appropriation levels don't cover the entire cost of salaries and benefits of our two

FTE. This discrepancy is covered from our operating fund. With the additional cuts recommended we would be required to draw even more of our salaries and benefits from the operating fund limiting our ability to regulate our industry because of reduced funding for travel and temporary staffing positions during the live race meet season.

The economic contribution of horse racing to North Dakota in a 2016 study conducted by NDSU reports a total economic impact to the state of nearly \$25 million dollars. Of that amount, the majority (\$20.2 million) was associated with agriculture expenditures including racehorse owners, breeders and trainers.

1. Chapter 53-06.2. The agency's major responsibilities include:
  - a. Provide for racing under the certificate system.
  - b. Administration of the Breeders, Purse, Promotion and Operating Funds.
  - c. Administration of licensing for Service Providers/Account Deposit Wagering (ADW's), Totalizator, Charity/Site Operators, Live Race Meets and Individual occupational licenses.
  - d. Adopt regulatory rules for all licensees and events.
2. Purpose of programs:
  - a. Breeders Fund – established to financially reward breeders or owners of North Dakota-bred horses.
  - b. Purse Fund – established to supplement and improve purses at racetracks within the state.
  - c. Promotion Fund – established to assist in improving and upgrading racetracks in the state, promoting horse racing in the state, and developing new racetracks in the state as necessary and approved by the commission.An Organizational Chart is listed on the last page.
3. Financial Audit Findings for 2019-2020.
  - a. None
4. Biennium Accomplishments and Challenges and next biennium goals and plans.
  - a. Live race meets were held in Belcourt (Chippewa Downs) and Fargo (ND Horse Park) this past summer. Spectators were allowed in Fargo and limited spectators at Belcourt. No cases of COVID-19 were reported in conjunction with either meet.
  - b. The NDRC Office and all on-site services remained intact and operations have continued as normal with no one working remotely. The office has remained opened for business.
  - c. We have shown an increase in tax revenue throughout the biennium.

- d. We have maintained our licensee base.
  - e. We have paid out just over a million dollars from our Purse, Breeders and Promotion Funds to Tracks, Breeders and Horsemen this Biennium, supporting the racing community in these difficult times. We are anticipating that number will grow in 21-23.
  - f. Our marketing plans were put on hold during COVID-19 due to the lack of opportunity to meet with industry owners.
  - g. Spectators attendance and horse entries were down in 2020.
5. Agency request was based on the mandatory 95% budget.
- a. Agency has 2 FTE's currently and requested for next biennium.
6. We are a one-line item funded agency.
- a. 100% of our General Fund Appropriations go towards Salaries and Benefits with additional funding for salaries and benefits coming from our operating fund.
  - b. All other appropriations come from our operating fund that is funded through licensing and registration fees set by the commission. Costs associated with the operating fund include rent, cleaning, travel, marketing, training and office supplies.
    - 1. Salaries & wages.
    - 2. Operating Expenses
    - 3. Capital assets; none
    - 4. Grants; none
    - 5. Special Line Items; none
    - 6. Estimated Income
      - a. Operating Fund \$132,477
      - b. Promotion Fund \$1,000,000
      - c. Breed Fund \$424,000
      - d. Purse Fund \$422,000
    - 7. Estimated income – Federal funds; \$0
    - 8. General fund \$421,000
    - 9. Changes to FTE; none
7. One-time funding 19-21; included funding for two interns to participate in our first ever Internship Program with the NDRC.
8. One-time funding Requests.
- a. Marketing ADWs - \$12,000. Justification – to try and increase the number of ADWs licensed in the state to increase revenue.
  - b. Internships - \$30,000. Justification – to promote interest in horse racing to college students for future job employment at the racetracks.
9. Agency Collections and deposits
- a. General Fund – deposits are from collecting taxes from the ADWs. 2019-21 estimate was \$466,686.
  - b. Currently deposited - \$409,540; on target to meet or exceed the estimate for this biennium.

- c. Estimated for 2021-23 is \$421,000.
  - d. Operating Fund – deposits are from fees from licensing and breed fund registrations.
  - e. 2019-21 estimate was \$135,461.
  - f. Currently deposited - \$129,055. We should be very close to meeting this estimate.
  - g. Estimated for 2021-23 is \$132,477.
10. Requested additional funding (\$48,000) for office relocation.
11. An agency bill was presented to the Legislative Council in December to update the definitions of some items in the Century Code including dropping the limitation of horses and greyhounds from the definitions on pari-mutuel wagering; adopting the Association of Racing Commissioners International (ARCI) Model Rules and Standards to our duties of commission section; and standardizing the title of the executive director of racing.  
A bill authorizing Historic Horse Racing may be submitted by another group. Any sports betting bills could have potential impact on our ADW's and OTB's.
12. Our agency operates on a very limited budget and strives to maintain balance and fiscal responsibility at every level. Any reductions to our budget impact our ability to market, recruit and regulate new and existing licensees, tracks, breeding operations and off-track betting sites.
13. We would request that we maintain our current budget without any reductions from the 2019-21 biennium budget authorizations of \$565,037.
14. We submitted a 95% budget per the Governor's mandate in the amount of \$545,083. Requested optional budget changes in the amount of \$90,000.
15. COVID-19 Federal Funding; \$1,000.00 used for plastic barriers, gloves, masks, hand sanitizer and cleaning supplies.
16. The Federal Horse Racing Integrity & Safety Act (HISA) was passed this past December by Congress and signed into law with the continuing appropriations spending bill. HISA creates an independent authority to regulate horse racing nationwide with few if any controls put on their actions or taxing authority. At this time, we don't know what impact this agency may have on our budget or horse racing in the State of North Dakota. Consensus in the industry is that it has the potential to close most small- and medium-sized tracks across the country that don't have additional sources of income to support racing regulation costs produced by the creation of this agency. Items such as allowing our ADW's and/or OTB's to provide other options and/or lifting the restrictions on pari-mutuel wagering would allow us to at least maintain our licensees and tax revenue stream for the general fund and our special funds.

In closing I would request that our funding levels be restored to the 2019-21 levels and the additional one-time optional funding requests of \$90,000 be added to our appropriation budget for the 2021-2023 biennium.

## Organizational Chart

